

Does performance explain mutual fund flows in small markets? The case of Portugal

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Received: 4 June 2008 / Accepted: 23 July 2010 / Published online: 25 August 2010
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Abstract We study the performance reaction of investors in a specific small market context. Our sample includes all Portuguese open-end equity funds that invested in stocks issued by Portuguese companies in the period December 1993–June 2009. Instead of the convex flow–performance relationship usually documented for the US, we find an absence of reaction to past performance. We find no evidence to support the “smart money effect”, given that capital flows do not favour next period performance winners. We also document persistence of fund flows. Our results are consistent with the idea that large financial intermediaries have the capacity “to drive” their customers to funds with larger fees.

Keywords Mutual fund · Performance reaction · Investor behaviour · Small markets and regulation

JEL Classification G21 · G23 · G28

CEF.UP and CEFAGE-UE are supported by FCT through POCTI of the QCAIII, which is financed by FEDER and Portuguese funds.

The views stated in this paper are those of the author and are not necessarily those of the Portuguese Securities Commission.

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